



Higher Education Tax Benefits

Tax Year 2007 - How Students and Parents can Save

The Iowa College Student Aid Commission connects you to information and resources that help parents and students finance education expenses beyond high school. There are a variety of money-saving tax benefits available to taxpayers that may help reduce the overall cost of a college education. The IRS offers various tax savings (deductions or credits) to individuals and families paying higher education expenses. This information is intended for educational purposes and should not be considered as legal or tax advice. You should consult your professional tax advisor or attorney for more information about the higher education tax benefits and to determine your eligibility. You also may consult the IRS's Publication 970 on Tax Benefits for Education online at www.irs.gov.

Student Loan Interest Deduction

You can deduct interest paid on student loans to reduce the amount of your taxable income.

- To be eligible, the loan(s) must have been borrowed to pay qualified educational expenses for a student who was enrolled at least half-time in a postsecondary degree or certificate program.
- A maximum of \$2,500 may be deducted each year. The allowable deduction decreases as income increases.
- In addition to simple interest on the loan, the following also may be considered student loan interest: loan origination fees, capitalized interest, interest on revolving lines of credit used to pay qualified educational expenses, interest on refinanced student loans and voluntary interest payments.
- Loans must have been used to pay for higher education expenses which may include tuition, fees, room & board, books, supplies, equipment, transportation and other related expenses.

The Hope Scholarship Tax Credit

The Hope Scholarship is a tax credit that reduces the amount of income tax you may have to pay.

- If you owe less in taxes than the maximum credit, you may only take the credit up to the amount of taxes owed.
- Up to \$1,650 for each eligible dependent student may be claimed for the first two years of college. The student(s) must be listed as a dependent on your federal tax return unless the credit is for the taxpayer or the taxpayer's spouse.
- Eligible students must be enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential and have no felony drug convictions before the end of the tax year. You can claim the Hope Scholarship based on the same student's expenses for no more than two years.
- Eligible education expenses include tuition and other related expenses¹.

Lifetime Learning Tax Credit

The Lifetime Learning Tax Credit reduces the amount of income tax you may have to pay.

- If you owe less in taxes than the maximum credit, you may only take the credit up to the amount of taxes owed.

Lifetime Learning Tax Credit, cont.

- A credit of up to \$2,000 per family per tax return may be claimed for all years of postsecondary education and for an unlimited number of tax years. The student(s) must be listed as a dependent on your federal tax return unless the credit is for the taxpayer or the taxpayer's spouse.
- Eligible students must be enrolled in at least one post-secondary education course. The course must either be part of a degree program or taken to acquire or improve job skills.
- Eligible education expenses include tuition and other related expenses¹.

Tuition & Fees Deduction

The Tuition and Fees Deduction reduces the amount of a taxpayer's taxable income.

- Up to \$4,000 paid for tuition and fees may be deducted as an adjustment to income even if you do not itemize deductions. This may benefit taxpayers who do not qualify for the Hope or Lifetime Learning tax credits. The student(s) must be listed as a dependent on your federal tax return unless the credit is for the taxpayer or the taxpayer's spouse.
- Eligible higher education expenses include tuition and other related expenses¹.
- Eligible students must be enrolled in one or more courses at an eligible educational institution and must have either a high school diploma or GED.

Qualified Tuition Programs (529 plans)

Qualified Tuition Programs (also known as 529 plans) allow you to either prepay or contribute to an account established for paying a student's qualified education expenses at an eligible educational institution. In general, you may withdraw funds from a 529 plan on a tax-free basis if the amount(s) does not exceed the qualified expenses for the student less any tax-free educational assistance received. Expenses may include tuition, fees, books, supplies, and other equipment. If the student is enrolled at least half-time, room and board that is included in the cost of attendance also may be included.

¹Related education expenses may include student activity fees and expenses for course-related books, supplies, and equipment, but only if these fees must be paid directly to the college or university as a condition of enrollment or attendance.

Iowa College Student Aid Commission

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Your Financial Aid Connection

When To Claim What!

In general, you may take only one tax credit for each eligible student per tax year. More than one benefit may be claimed in the same year if you are using a different student's expenses to determine the credit (e.g., the Hope Scholarship can be claimed for your college freshman and the Lifetime Learning Credit may be claimed for your college junior). Taxpayers who choose to take a tax-free distribution from a Qualified Tuition Program or Coverdell Education Savings Account also may claim either the Hope Scholarship, Lifetime Learning Credit, or Tuition and Fees Deduction as long as the same education expenses are not used to qualify for each benefit and the taxpayer does not exceed the maximum Lifetime Learning benefit.

You will receive a 1098-T from the college or university that the student attends. The 1098-T will specify the amount of eligible expenses that may be used when calculating your tax credits. You may not claim expenses that were paid with tax-free scholarships, grants or

other educational assistance OR expenses used to claim a different tax benefit or deduction. *You may wish to talk to a tax advisor for help in determining which tax benefit is best for you.*

Other Tax Benefits Available

There are additional programs available to assist you with the cost of higher education including:

- IRA Withdrawals
- Employer-Provided Educational Assistance
- Education Savings Bonds
- Coverdell Education Savings Accounts (ESA)
- Business Deductions for Work-Related Education

The chart below provides a comparison of the programs outlined in this publication. Contact the IRS directly or consult the IRS's Publication 970 on Tax Benefits for Education to learn more about these and other programs. Call the IRS at 800-829-3676 or go online at www.irs.gov.

	Student Loan Interest Deduction	Hope Credit	Lifetime Learning Credit	Tuition & Fees Deduction	Qualified Tuition Programs (529 Plans)
Benefits	Can deduct interest paid	Credits can reduce the amount of tax you must pay	Credits can reduce the amount of tax you must pay	Can deduct qualified expenses	Earnings are not taxed
Annual Limits	Up to \$2,500 deduction per tax return	Up to \$1,650 credit per student	Up to \$2,000 credit per tax return	Up to \$4,000 deduction per tax return	None
Qualifying Expenses (in addition to tuition and required enrollment fees)	Books, supplies, equipment, room & board, transportation, and other necessary expenses	None	None	None	Books, supplies, equipment, room & board (if student is enrolled at least half-time), and expenses for special needs services
Education Requirements	Undergraduate & Graduate degree programs	First 2 years of undergraduate degree program	Undergraduate & Graduate degree programs and courses to acquire or improve job skills	Undergraduate & Graduate degree programs	Undergraduate & Graduate degree programs
Other Conditions	Student for whom the loan was borrowed must have been enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential.	Student must be enrolled at least half-time in a program leading to a degree, certificate or other recognized educational credential. No felony drug conviction(s).	Can be claimed for all years of postsecondary education and for courses to obtain a degree or acquire or improve job skills. Felony drug conviction rule does not apply.	Cannot claim both deduction and education credit for the same student in the same year.	Contributions cannot be more than the amount necessary to pay the qualified education expenses of the designated beneficiary.
Income Guidelines for 2007 Tax Year (income based on Modified Adjusted Gross Income - MAGI)	Individual Returns: ○ below \$70,000 ○ reduced benefit for \$55,000-\$69,999 Joint Returns: ○ below \$140,000 ○ reduced benefit for \$110,000-\$139,999 Married Filing Separately: ○ not eligible	Individual Returns: ○ below \$57,000 ○ reduced benefit for \$47,000-\$56,999 Joint Returns: ○ below \$114,000 ○ reduced benefit for \$94,000-\$113,999 Married Filing Separately: ○ not eligible	Individual Returns: ○ below \$57,000 ○ reduced benefit for \$47,000-\$56,999 Joint Returns: ○ below \$114,000 ○ reduced benefit for \$94,000-\$113,999 Married Filing Separately: ○ not eligible	Individual Returns: ○ below \$80,000 ○ reduced benefit for \$65,000-\$79,999 Joint Returns: ○ below \$160,000 ○ reduced benefit for \$130,000-\$159,999 Married Filing Separately: ○ not eligible	No income requirements
How Do You Get the Credit or Deduction?	Use the information from the IRS Form 1098E sent by your loan holder to help determine your maximum deduction.	Complete the IRS Form 8863 to claim the tax credit. Use information from the IRS Form 1098T sent by the college or university to help determine your credit.	Complete the IRS Form 8863 to claim the tax credit. Use information from the IRS Form 1098T sent by the college or university to help determine your credit.	Complete the IRS Form 8917. Use the information from the IRS Form 1098T sent by the college or university to help determine your maximum deduction.	No tax is due on a distribution unless the amount distributed is greater than the beneficiary's adjusted qualified education expenses.

